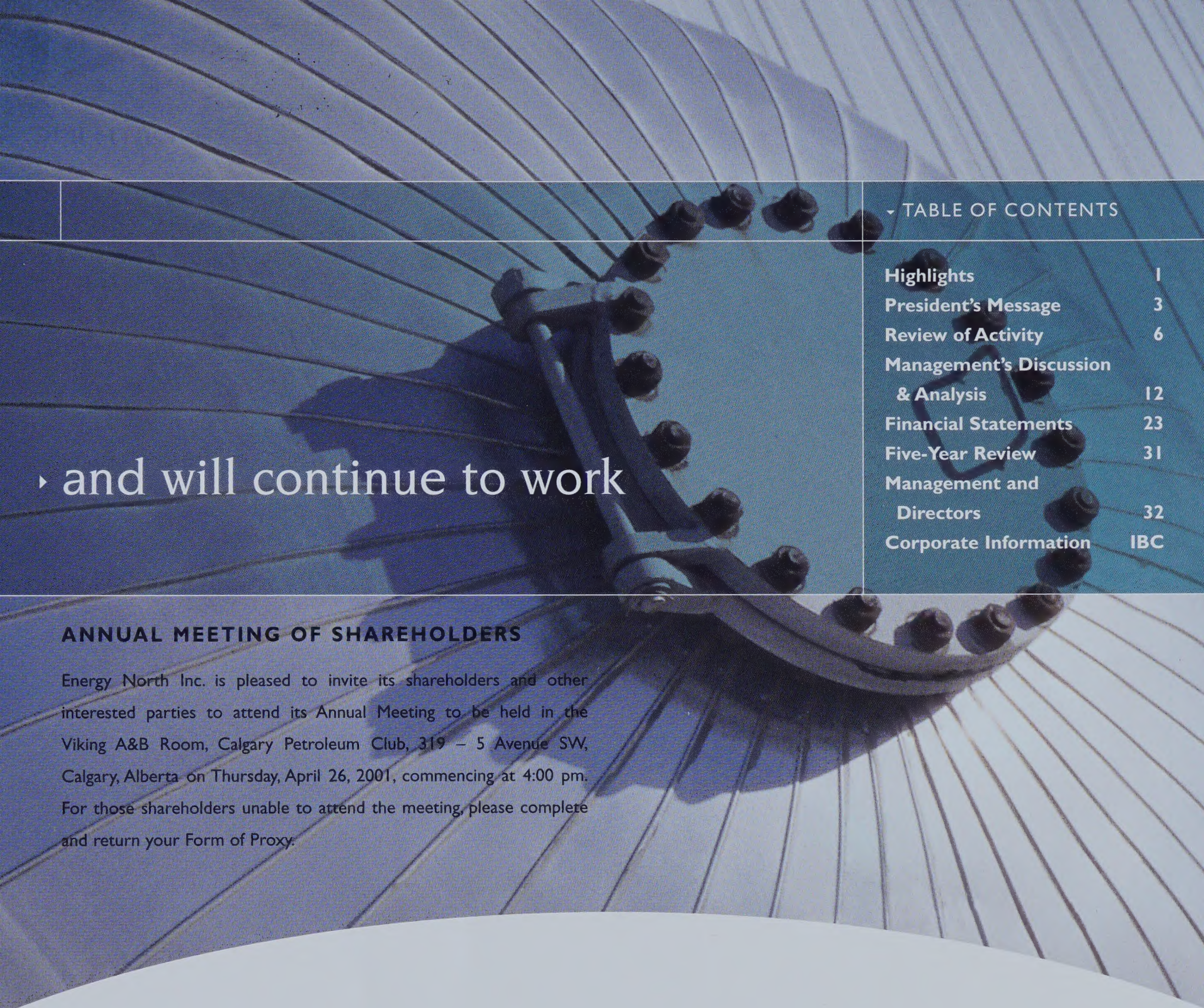
ENERGY NORTH INC.

2000 › ANNUAL REPORT

www.energynorthinc.com/results2000/

# Our growth strategy is working ›



## and will continue to work

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### ANNUAL MEETING OF SHAREHOLDERS

Energy North Inc. is pleased to invite its shareholders and other interested parties to attend its Annual Meeting to be held in the Viking A&B Room, Calgary Petroleum Club, 319 – 5 Avenue SW, Calgary, Alberta on Thursday, April 26, 2001, commencing at 4:00 pm. For those shareholders unable to attend the meeting, please complete and return your Form of Proxy.

Energy North Inc. (Energy North) is a junior oil and gas **exploration and development** company, with over 70% of its revenues derived from crude oil sales. The company uses a full cycle exploration and development approach combined with the latest in advanced technology to generate **continuous growth** opportunities. Through **strategic** land and production purchases, seismic programs and drilling and production optimization programs, Energy North has recorded **significant revenue** growth every year since its reorganization in 1996.

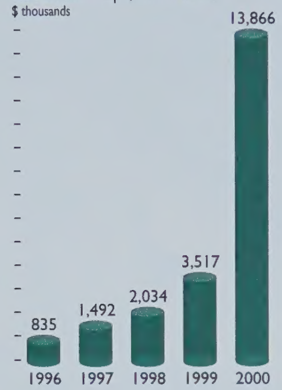
Energy North strives to be a **top performer** in key industry measures by retaining a high working interest and operatorship in all properties. This allows Energy North to **exploit new discoveries** and develop these opportunities quickly and efficiently. The company focuses its activities in three core areas, Eastern Alberta, West Central Alberta and the Fairview region in Northern Alberta. Energy North is publicly traded on the **Toronto Stock Exchange** where its common shares are listed for trading under the symbol **ENI**.

front cover: Sounding West

# strong upward trends

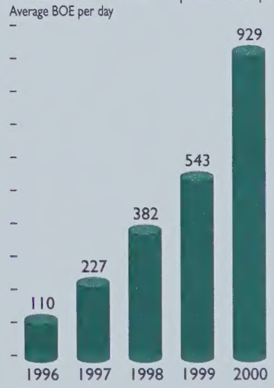
| | 2000 | 1999 | % Change |
|---|---|---|---|
| **FINANCIAL** | | | |
| Petroleum and Natural Gas Revenue | **$ 13,865,575** | $ 3,516,936 | 294 |
| Cash Flow from Operations | **6,126,328** | 1,387,746 | 341 |
| Cash Flow per Share | **0.18** | 0.05 | 260 |
| Net Earnings | **1,753,810** | 52,237 | 3,257 |
| Net Earnings per Share | **0.05** | 0.00 | 500 |
| Capital Expenditures | **10,031,523** | 2,024,683 | 395 |
| Total Debt | **4,540,298** | 3,154,941 | 44 |
| Shareholders' Equity | **8,366,581** | 4,256,025 | 97 |
| **Common Shares Outstanding** | | | |
| Weighted Average | **33,153,420** | 29,691,667 | 12 |
| **OPERATIONS** | | | |
| **Daily Average Production** | | | |
| Crude Oil and NGLs (Bbls per day) | **761** | 398 | 91 |
| Natural Gas (Mcf per day) | **1,673** | 1,453 | 15 |
| Total BOE per day 10:1 | **929** | 543 | 71 |
| Total BOE per day 6:1 | **1,040** | 640 | 63 |
| **Average Selling Price** | | | |
| Crude Oil and NGLs ($ per Bbl) | **36.61** | 22.84 | 60 |
| Natural Gas ($ per Mcf) | **5.97** | 2.42 | 147 |
| **Proven Plus 50% Probable Reserves** | | | |
| Crude Oil and NGLs (Bbls) | **1,699,000** | 1,185,400 | 43 |
| Natural Gas (MMcf) | **3,238.0** | 2,091.6 | 55 |
| Total BOE | **2,022,800** | 1,394,560 | 45 |
| **Present Value of Reserves** | | | |
| Discounted before Taxes at 10% | **$ 22,626,000** | $ 10,461,100 | 116 |

**Revenues** - Up $10.3 million
$ thousands



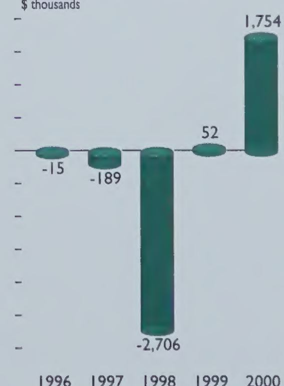

*Net revenues jumped in 2000 because of increased production and higher commodity prices.*

**Production Profile** - Up 386 BOE per day
Average BOE per day




*Developing new properties quickly enhances production volumes.*

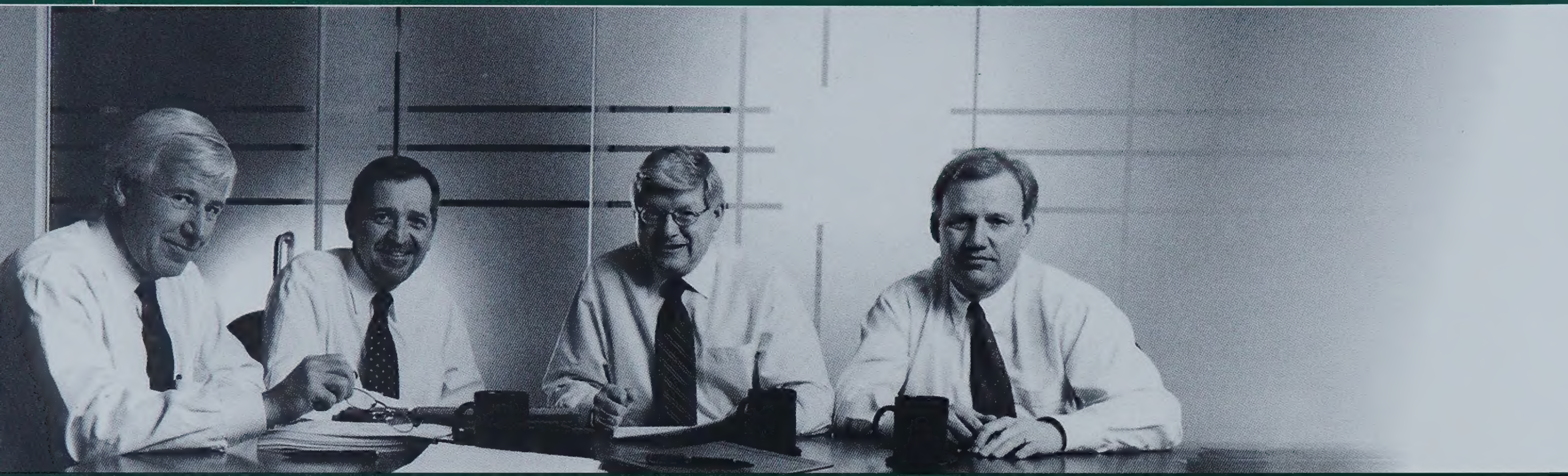
**Earnings** - Up $1.7 million
$ thousands




*Volumes and prices accounted for a significant rise in earnings.*

*"in 2000 Energy North effectively generated profit by achieving netbacks of twice what finding costs were"*





*(l to r)* ***Richard Edgar****, President and CEO;* ***Peter Pelensky****, Vice President, Engineering;* ***Bill Patterson****, Vice President, Finance and CFO;* ***Bruce Edgar****, Vice President, Exploration.*

**ENI Average Commodity Prices for 2000**

# 2000 ‣ an extremely profitable year

I AM PLEASED TO REPORT THAT ENERGY NORTH INC. recorded its best fiscal year ever in 2000. We also continued our five-year pattern of growth and achieved new records in all financial areas. The company attained these outstanding results by staying with a proven game plan, which supports our corporate objective:

> ***to create profitable growth per share through well managed, moderate risk, full cycle exploration programs, complemented by strategic countercyclical acquisitions.***

## Strong Commodity Prices Pushed Finances to Record Highs

Sales of our produced crude oil and natural gas reached a new record of $13.8 million, up 294%. Cash flow also recorded a new high of $6.1 million or $0.18 per share, up 260%, and on target with our projections. In addition, Energy North established a new record for earnings, achieving $1.7 million or $0.05 per share, up 3,257% from 1999. If we present our earnings in the same format as last year, prior to accounting for deferred income tax, our earnings were $3.1 million or $0.09 per share. Our current free cash flow is about $750,000 per month, which we are reinvesting in drilling and development of exploration projects.

At year end our debt was $4.5 million. We believe our 2000 reserve additions will allow us to expand our credit facility to about $8 million from a current level of $6.2 million. Our ratios of debt to cash flow show a trailing debt to cash flow ratio of .74 to 1 and a current debt to cash flow forecast of .38 to 1. This means our balance sheet is in tremendous shape with adequate financing for continued growth.

## Production Improvements will Support New Developments

By carefully following a set of proven strategies, we were able to achieve an average production for the year of 929 barrels of oil equivalent (BOE) per day. This is a 71% increase over 1999. If we convert our natural gas production to oil by using the currently popular 6 to 1 ratio, our average production for 2000 jumped to 1040 BOE per day.

In May 2000 we surpassed an important milestone of 1000 BOE per day, and by year end, production rates had exceeded 1200 BOE per day. This increased production level allows Energy North to finance ongoing exploration and development programs. We achieved this production growth through both drilling and acquisition. During the second quarter we purchased two properties, Clarks Lake and Sounding Lake, which added 535 BOE per day. But more importantly, this acquisition gave us the opportunity to further develop natural gas reserves and production. Development drilling accounted for an additional 300 barrels of production per day. We replaced our production 2.85 times during 2000 at a finding and development cost of $7.98 per BOE.

Our recycle ratio, which is calculated by dividing our netback per barrel of oil equivalent by our finding cost, shows a ratio of 2.25 and demonstrates how effective Energy North was at generating profit during the year. In other words, we achieved netbacks of 2.25 times what our finding costs were.

Due to high product prices, and the associated robust economics, the company spent time and money maximizing the production rates of previously uneconomic wells. These expenditures show up as operating expenses and consequently our operating cost per barrel rose to $10.47, up 42% from the previous year. We expect these expenditures to diminish in 2001, bringing our operating cost back to historical averages.

## Our Growth Formula Delivered Superior Returns

At year end our market capitalization had increased by 170% to $19 million and our share-trading price increased 80% over 1999. Through intelligent management processes we were able to fully convert 44% of our sales into cash flow, and 29% of our cash flow into net earnings. Our net asset value per share increased to $0.65 per share, garnering a very satisfactory increase of 145%.

To further enhance shareholder value, in May 2000, we received approval from the Canadian Venture Exchange to buy back up to 5% of our common shares through a normal course issuer bid. Through this bid we have purchased 582,000 shares at an average price of $0.40 per share and have returned them to the corporate treasury for cancellation.

## Expanded Prospect Inventory will Balance our Production Ratio

Over time, Energy North will differentiate itself from its peers in the junior oil sector through its ability to generate successful full cycle exploration projects. During 2000 we increased our undeveloped acreage position by 24,025 acres or 89%, to 45,409 acres. This has bolstered our oil and gas prospect inventory to two years. Currently, we produce approximately 80% oil and 20% natural gas. We intend to equalize our oil and gas production ratio by pursuing a series of very attractive natural gas prospects, which we will drill in 2001.

## Managed Growth Ensures Long-term Success

In early 2001, Energy North welcomed two key individuals to the exploration team, who will strengthen the organization. Marc Schroeder, a geologist, was named to the position of Senior Exploration Geologist. In this role, Mr. Schroeder will devote time to improving Energy North's ability in prospect generation. Don Robson, a professional land man, was appointed Land Manager and will assume the responsibility of managing our increasing acreage base and land negotiations. Both Mr. Schroeder and Mr. Robson have in excess of 20 years of industry experience, and they are leaders in their professions. Energy North has reached a size financially and operationally where it can handle larger exploration and acquisition projects, and our newly expanded staff has the know-how to do so quickly and efficiently.

These new staff members join a team of outstanding employees whose key priority has been to carefully manage our growth as we initiate expanded exploration, development and financial initiatives. We are constantly improving business systems for short-term forecasting and long-term strategic planning. As well, we have implemented reclamation and site rehabilitation programs designed to minimize the environmental impact of our activities. And, we have dramatically improved our analytical ability and communication's effectiveness, by adopting internet-based software.

## Looking Forward to 2001

On January 13, 2001, reflecting Energy North's significant progress, the Toronto Stock Exchange accepted our application to list the company's common shares for trading. Energy North Inc. shares began trading on the exchange on January 17, 2001, at $0.60 and have since traded as high as $0.64. Having access to Canada's largest equities market has dramatically increased our share-trading volumes, and we expect further increases as we announce our 2001 program results throughout the year.

Our planned capital expenditures for 2001 are approximately $12 million, which we will finance through cash flow and expanded lines of credit. The company plans to invest $2.5 million for land and seismic on new projects, $5 million to drill 16 exploration wells and $3 million on development drilling. We expect to invest a further $1.5 million on well work-overs, production optimization and abandonment and reclamation activities.

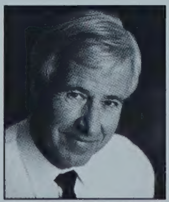
We will continue to operate in our three core areas in Eastern, West and Northern Alberta and create new core locations, where we identify potentially rewarding opportunities.

## Doubling Production – A Key Objective

Our adherence to corporate strategies, that support increased, long-term shareholder value, has allowed Energy North to achieve production and revenue growth every year since we reorganized in 1996. We will continue to follow this successful formula in 2001.

Our target is to double the company's production by year end, and our current prospect inventory will likely allow us to achieve this goal. The inventory is a focused portfolio of projects, both development and exploratory, that present growth opportunities for 2001, thereby increasing shareholder value.

These are exciting times for Energy North, and I would like to thank our talented and devoted employees and consultants for their contribution to our record performance this past year. Their exemplary commitment and accomplishments in 2000 are the reason for our growth and the best guarantee of our continued success. I appreciate our directors' sound advice and guidance, and I acknowledge our shareholders' continued confidence and support for our activities.



**Richard N. Edgar**
*President and Chief Executive Officer*

February 21, 2001

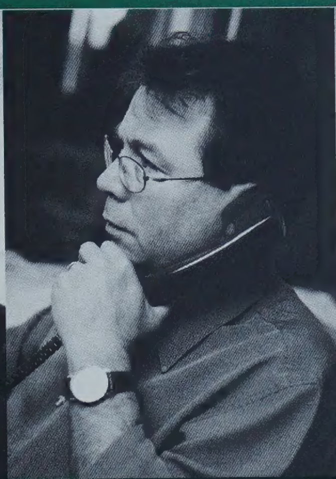
*"2000 was a banner year for operations.*

*We increased production by 71% – a key industry measure."*



***Dave Hudgeon***
*Senior Construction/ Operations Superintendent*

***Glenda Leavitt***
*Controller*



***Dan Bianco***
*Senior Production Technologist*

***Marjorie Edgar***
*Executive Administrator*

***Barry Dick***
*Geophysicist*

**Areas of Activity – Alberta**


**The company:**

- increased overall daily production to an average of 929 BOE per day from 543 BOE per day, a 71% jump over 1999 with the production mix of 80/20 oil/gas in 2000;
- improved oil production from 398 Bbls per day in 1999 to 761 Bbls per day in 2000, a 91% increase;
- added reserve volumes of 726,100 BOE, proven and probable;
- continued prospect generation in all activity areas, resulting in an 89% increase in the undeveloped land base;
- shot 62 kilometres and purchased 280 kilometres of new 2D seismic and acquired 66 square kilometres of 3D data to evaluate and develop exploration and development prospects; and
- completed an acquisition early in the year to expand our Provost core area by 17,280 acres.

# 2000 ▸ finding & developing reserves

IN 2000, ENERGY NORTH CONTINUED TO EXPAND ITS ABILITY to find and develop reserves. Increasing cash flow from operations now allows us to fund a high percentage of the cost of these programs internally. The company's 2000 results demonstrate our ability to add reserves, maximize production and control costs. The year 2000 was a banner year. We succeeded in increasing production by 71% – a key industry measure.

While forecasting the future of energy prices is an inexact science, we continue to be bullish and expect at this juncture that 2001 will be a good year. We are proud of how much we have accomplished thus far, and we are excited and ready to capture the opportunities before us.

## Our Proven Strategy Yields Strong Results

*Energy North continues to embrace a series of proven corporate strategies, complemented by a sound acquisition plan, to consistently capture growth opportunities and enhance shareholder value. Energy North remains prosperous by:*

- *growing through drilling;*
- *concentrating on technology-driven, moderate risk projects;*
- *focusing on specific play types definable with 2D and 3D seismic to reduce risk;*
- *placing high priority on rapid cash flow generation;*
- *managing financial risk through appropriate working interests;*
- *balancing low risk development plays with high impact exploration prospects; and*
- *participating in acquisitions when we develop suitable opportunities.*

## Energy North Recorded Another Year of Growth in 2000

Energy North's key objective for 2000 was to commit the necessary time and investment capital to ensure that the company is well positioned to capitalize on opportunities and ensure future growth. Through aggressive land and production purchases, seismic programs and drilling, Energy North has more opportunities than ever before. Our oil and natural gas prospects will keep us drilling throughout 2001 and well into 2002.

The company was successful in closing a major acquisition at Clarks Lake and Sounding Lake in Eastern Alberta worth $2.8 million. This deal significantly increased our presence in this core area by adding oil facilities, seismic and 17,280 acres to our landholdings. To further increase the value of these newly acquired properties and the existing production base, we will optimize production with pump changes, monitor pump efficiencies and enhance facilities.

The outlook for 2001 is for continued high commodity prices. Energy North will capitalize on this by focusing on further prospect generation and acquiring additional oil and natural gas production in core areas.

## Building Prospect Inventory

Energy North increased its investment in undeveloped land by 61%, investing $529,757 during 2000, up from $328,950 in the prior year. The 2000 land budget, as well as the Provost acquisition, increased the undeveloped land base from 21,384 to 45,409 net acres. The increased investment in undeveloped land reflects the company's unwavering commitment to exploration and our strategy of building a healthy inventory of prospects.

## Production and Reserve Growth Reflects Operator Expertise

### Production

In operations and production, we adhere to two strong principles: control and maximization of production revenue.

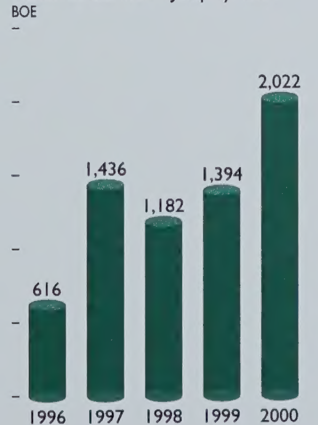
Currently, Energy North operates more than 80% of its production. By maintaining the role of operator in all our properties, Energy North controls the rate of development and the method and rate of production. We exploit new discoveries and develop these opportunities quickly and efficiently. In doing so, we are able to identify under-exploited pools that we can target for acquisition. This approach is clearly demonstrated in our significant jump in average daily production from 543 BOE per day in 1999 to 929 BOE per day in 2000.

Maximizing production revenue generates funds for reinvestment into our exploration and development programs. To maximize selling price and lower oil quality differentials, the company instituted a blending operation to combine our lower quality crude oil with condensate.

### Reserves

During 2000, Energy North concentrated on increasing its reserve base through acquisitions, production enhancements and drilling. This is evident in the new reserve values. The company expanded its reserves by 45% to 2.0 million BOE on a barrel of oil equivalent basis, using a 10 Mcf to one barrel of oil ratio and proven plus 50% of probable reserves. Energy North increased reserve value from 1999 and now has a proven plus 50% probable value discounted at 10% of $22.6 million compared with $10.4 million in 1999. NRG Engineering Ltd. assesses 95% of our reserves, while Energy North reviews the remaining 5% internally.

**Reserve Growth** - Jump by 45%
BOE




| | Crude Oil & NGLs (MBls) | Natural Gas (MMcf) | Equivalent (MBOE) |
|---|---|---|---|
| Proven Producing | 1,187.0 | 2,556.0 | 1,442.6 |
| Proven Non-producing | 71.0 | 501.0 | 121.1 |
| Total Proven | 1,258.0 | 3,057.0 | 1,563.7 |
| Probable | 882.0 | 362.0 | 918.2 |
| Proven Plus Probable | 2,140.0 | 3,419.0 | 2,481.9 |
| Proven Plus 50% Probable | 1,699.0 | 3,238.0 | 2,022.8 |

### Reserves Value

| Net Present Value of Future Cash Flows (Before Taxes) (thousands) | 0%NPV | Discounted 10%NPV | 15%NPV | 20%NPV |
|---|---|---|---|---|
| Proven Producing | $ 21,997 | $ 18,347 | $ 17,043 | $ 15,957 |
| Proven Non-producing | 2,074 | 1,139 | 880 | 693 |
| Total Proven | 24,071 | 19,486 | 17,923 | 16,650 |
| Probable | 9,499 | 6,278 | 5,274 | 4,490 |
| Proven Plus Probable | 33,570 | 25,764 | 23,197 | 21,140 |
| Proven Plus 50% Probable | 28,821 | 22,626 | 20,560 | 18,895 |

### Reserve Life Index

at December 31, 2000

The reserve life index is a measure of the duration of expected future production of a reserve. It is obtained by dividing year end reserves by average production. Based on proven reserves and production volumes, Energy North's reserve life index at the end of 2000 was 4.61 years.

| | **2000** | | 1999 | |
|---|---|---|---|---|
| | **Proven** | **Proven & Probable** | Proven | Proven & Probable |
| Crude Oil & NGLs (Bbls per day) | **4.53** | **7.70** | 5.88 | 10.44 |
| Natural Gas (MMcf per day) | **5.01** | **5.60** | 3.38 | 4.52 |
| Equivalent (BOE per day) | **4.61** | **7.32** | 5.21 | 8.86 |

## 2000 Drilling Activity Achieves a High Success Rate

Energy North's growing undeveloped land base, our innovative approaches to geology and geophysics, and the very attractive economic conditions all came together to generate a more active and successful drilling program in 2000. The company drilled 450% more wells than in 1999, with a success rate of 79%. We participated in the drilling of 11 wells at an average working interest of 74%.

**2000 Drilling Activity**

| | Gross | Net |
|---|---|---|
| Natural Gas | 2.00 | 1.50 |
| Oil | 5.00 | 5.00 |
| Dry | 4.00 | 1.64 |
| Total | 11.00 | 8.14 |
| Success Rate | | 79.85% |
| Average Working Interest | | 74.00% |

## Higher Acquisition and Finding Costs Ensure Growth Prospects

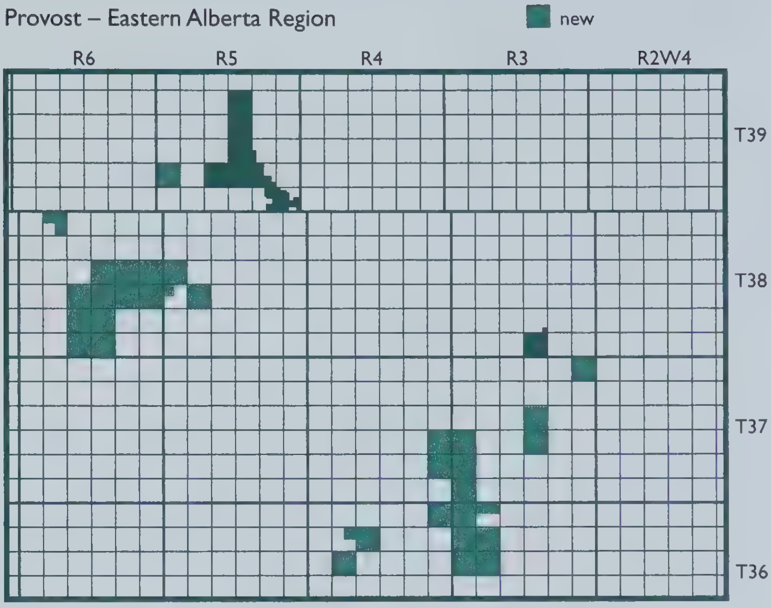
In 2000 Energy North spent a record amount of capital on drilling, production facilities, acquisitions and pre-investment costs for land and seismic for future growth prospects. In calculating finding costs, a number of anomalies between reporting periods are created because of the timing of expenditures and the phase of the exploration cycle. In particular this relates to land acquisition and seismic, to build a prospect inventory. For smaller companies like Energy North, the prospect developing activities can occur in one year while the drilling occurs in another. Therefore, multi-year cumulative average calculations are a more meaningful reflection of a company's ability to find and produce reserves effectively. In the table below, we have included both a four-year and a one-year calculation. Based on proven plus 50% of probable reserves, the 2000 reserve addition costs were $7.98 per barrel of oil equivalent. The more meaningful four-year company average is $6.65 per barrel, which is well below the industry average.

**Acquisition and Finding Costs**

| | **2000** | 1999 | 1998 | 1997 | Four-year Average |
|---|---|---|---|---|---|
| Drilling and Development Expense | **$ 5,174,890** | $ 3,049,218 | $ 3,642,765 | $ 4,809,980 | $ 4,169,213 |
| Acquisitions, Disposals and Insurance | **2,556,010** | (1,024,535) | (187,888) | (243,338) | 275,062 |
| Total | **$ 7,730,900** | $ 2,024,683 | $ 3,454,877 | $ 4,566,642 | $ 4,444,276 |
| Reserve Additions | **628,240** | 213,010 | 290,000 | 819,900 | 487,788 |
| Production | **339,901** | 158,487 | 139,486 | 83,081 | 180,239 |
| Total | **968,141** | 371,497 | 429,486 | 902,981 | 668,026 |
| Finding and Acquisition Costs per BOE | **$ 7.98** | $ 5.45 | $ 8.04 | $ 5.06 | $ 6.65 |

Areas of Activity – Alberta


Provost – Eastern Alberta Region




## Expanding Operations in Core Areas

Energy North's exploration, development and production activities are focused in three principal areas:

- Eastern Alberta;
- West Central Alberta; and
- The Fairview area of Northwestern Alberta.

The company processes and analyzes geophysical and geological data to build a risk-balanced inventory of exploration and development prospects, the most promising of which we will drill over the next year.

During 2000, the company significantly expanded its operations in Eastern Alberta through acquisitions, exploration and development. We made a natural gas discovery in the liquids-rich West Central Alberta region in the first quarter of 2000. And, we have developed plans to drill in the Fairview area, which offers shallow to medium depth, multi-zone natural gas reserves.

## Pursuing a Stronger Presence in the Eastern Alberta Region

Our acquisition in early 2000 in the Provost area of Alberta significantly increased the company's presence in this locale. Assets include:

- 534 BOE per day of oil and gas production;
- three oil processing facilities;
- 32 sections of land; and
- a seismic base of 160 kilometres of 2D data and 16 square kilometres of 3D data.

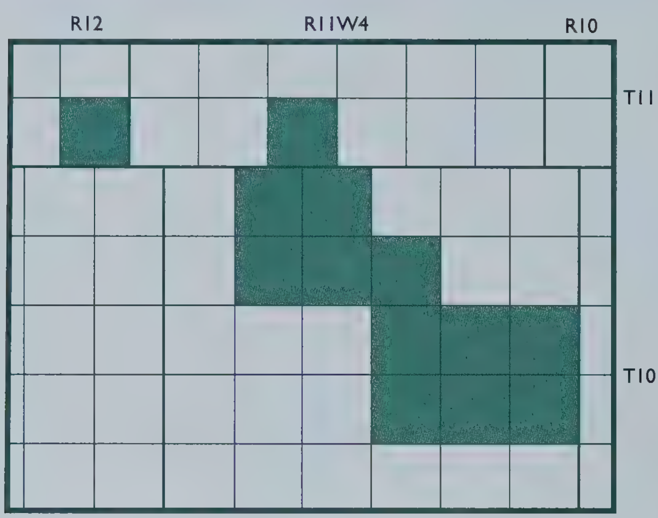
Energy North closed other seismic and land deals during the year, resulting in:

- completion of three new oil wells at Sibbald;
- drilling of a new oil well and development of two new exploration prospects at Leela;
- drilling of an oil well on the newly acquired Clarks Lake property; and
- a tie-in program at Clarks Lake that resulted in new, incremental production additions to the original acquisition.

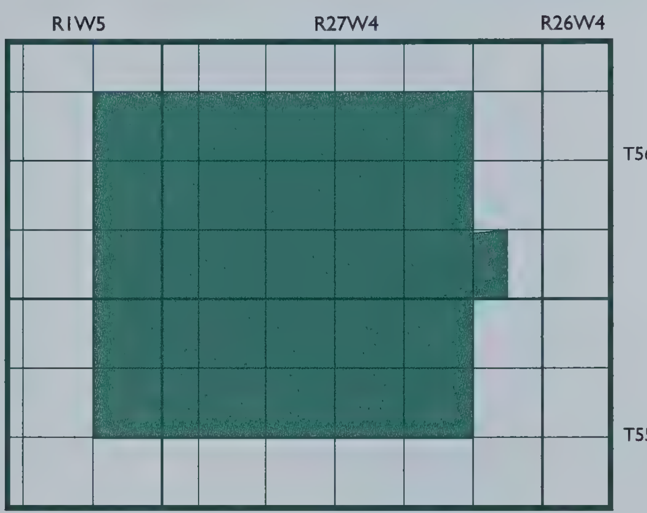
The company also developed and enhanced its Bow Island and Alderson exploration prospects using 3D seismic and completing land acquisitions. These properties are both light oil prospects, which Energy North will drill in the first quarter of 2001.

The company entered into a joint venture with an industry partner in the Vulcan area of Alberta. This prospect is a multi-zone gas play that Energy North has a 75% working interest in and will drill in the first quarter of 2001.

Bow Island – Eastern Alberta Region




Alexander – West Central Alberta Region




## Building the Gas Inventory in the Fairview Region

During 2000, the company continued to be active in the Fairview region, which is a gas exploration area. We have identified three highly prospective gas zones at depths of less than 1,200 metres. This type of play fits in with our corporate goal for moderate risk projects, allowing for higher working interests and, therefore, larger reward potential.

Over the last two years, we have assembled an extensive, 2D seismic base, and we shot an additional program late in 2000. By the end of the year, Energy North had accumulated varied working interests in 23,673 gross acres of land. This includes a farm-in deal that we negotiated late in 2000, and will drill in the first quarter of 2001. Energy North will continue to actively explore this region because it has the potential to be a large growth area for natural gas production and reserves.

## Developing a Gas Discovery in the West Central Alberta Region

In late 1998, the company decided to pursue an exploration gas strategy in West Central Alberta, located west of Edmonton. This region is characterized by a multi-zone, medium depth drilling prospect, which has liquids-rich natural gas. The principal reservoir targets, which are gas prone, are in the Cretaceous, and Mississippian formations. Through geological studies, 2D seismic shooting and land acquisitions, Energy North now controls 24,170 gross acres of land in the area.

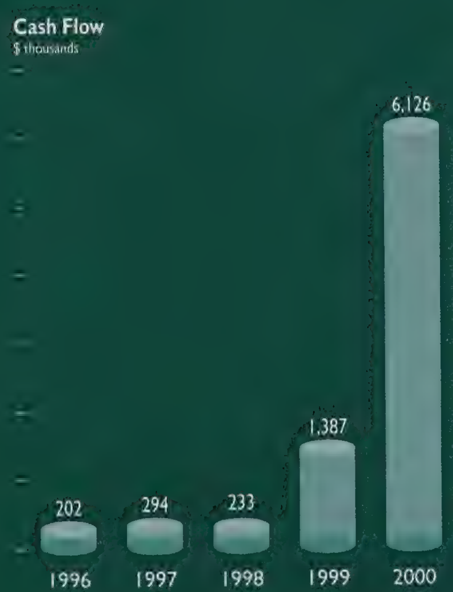
The company drilled its first exploratory well on new lands early in the year, resulting in a gas discovery on its Virginia Hills play. We are shooting additional seismic early in 2001 to further delineate geological trends. In addition, Energy North is generating new prospects internally and expects to undertake further drilling during 2001. This activity will make the West Central Alberta region a core production area for the company.

We have finalized the project on the Alexander First Nation lands. This venture gives Energy North the ability to explore for natural gas on the Alexander Reserve. The property is a 27-section (17,000 gross acres) contiguous land block in a very gas prone area. The company commenced a 40-kilometre, 2D seismic program in the fall, and has selected four drilling locations. The first well will be spudded in March. Employment opportunities and training is also a commitment that the company has made to the Alexander First Nation as part of the project.

*"Energy North's 2000 fiscal performance showed significantly increased operating results, most notably in petroleum and natural gas revenues, cash flow and net earnings"*



***Aaron Ganser***
*Operator – Sounding Lake*



*Management's discussion and analysis should be read in conjunction with the financial statements and notes contained in this annual report and is based on information available as at February 1, 2001. The following discussion contains certain assumptions about future events and actual results may vary significantly from these assumptions. Where amounts are expressed on a barrel of oil equivalent basis, gas volumes have been converted to barrels of oil at 10,000 cubic feet of gas per barrel.*

## OVERVIEW - RECORD YEAR

Energy North's 2000 fiscal performance showed significantly increased operating results, most notably in petroleum and natural gas revenues, cash flow and net earnings. Larger revenues, before Royalties, Alberta Royalty Tax Credit (ARTC) and other income, reflect better production volumes (71%) and average product price increases (76%). Cash flow from operations jumped from $1.4 million to $6.1 million, a 341% increase over last year. Net earnings rose to $1.8 million from $52,000 in 1999.

Effective May 1, 2000, Energy North acquired properties at Sounding Lake and Clarks Lake in the Eastern Alberta core area. This acquisition increased Energy North's total production by 535 BOE per day (500 barrels per day of oil and 35 BOE per day of natural gas). Energy North has included the production from this acquisition in its results since May 1, 2000, or for two-thirds of the year. By year end these properties were producing 564 BOE per day (406 barrels per day of oil and 158 BOE per day of natural gas).

To sustain this growth, Energy North continued to put in place the necessary elements to allow the company to continue its production and reserve increases. These elements include an inventory of exploration and development projects, human resources and a healthy financial position.

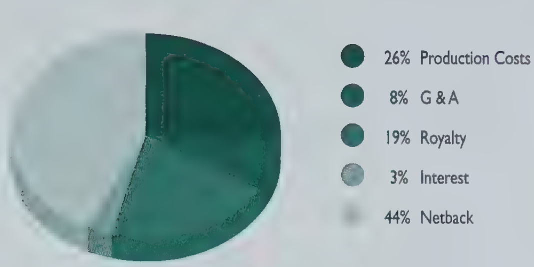
## CASH FLOW FROM OPERATIONS

Cash flow from operations for 2000 was $6.1 million, an increase of 341% over the $1.4 million achieved in 1999. This amount represents $0.18/share ($0.17/share fully diluted). The increase is a result of high commodity prices and improved production volumes. Energy North boosted production volumes by purchasing production and drilling and enhancing recovery methods in core areas. The company will continue to focus on cash flow per BOE as a measure of its efficiency. Energy North expects that as its production base increases, operating and administrative costs per unit will decrease.

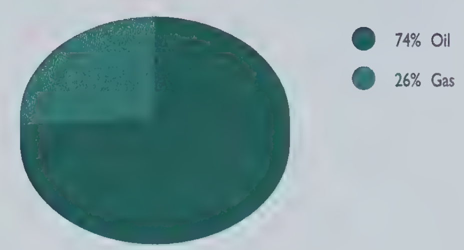
### BOE Analysis

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Oil and Gas Revenue | **$ 40.80** | $ 23.21 | $ 14.59 |
| Royalties (net of ARTC) | **(8.03)** | (3.59) | (1.67) |
| Production Cost | **(10.47)** | (7.39) | (7.57) |
| Netback from Operations | **22.30** | 12.23 | 5.35 |
| General and Administrative | **(3.31)** | (3.21) | (2.81) |
| Interest | **(1.32)** | (1.36) | (1.29) |
| Other Income | **.35** | – | – |
| Cash Flow per BOE | **$ 18.02** | $ 7.66 | $ 1.25 |

**Netbacks**
per BOE




**ENI Revenues**




## NETBACKS

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | **Crude Oil & Liquids (Bbls)** | **Natural Gas (Mcf)** | Crude Oil & Liquids (Bbls) | Natural Gas (Mcf) | Crude Oil & Liquids (Bbls) | Natural Gas (Mcf) |
| Production | | | | | | |
| Daily | **761** | **1,673** | 398 | 1,453 | 243 | 1,388 |
| Total | **278,682** | **612,338** | 145,256 | 530,330 | 88,792 | 506,630 |
| Revenues | **$ 10,202,928** | **$ 3,662,647** | $ 3,318,047 | $ 1,285,940 | $ 971,212 | $ 1,043,505 |
| Royalties (net of ARTC) | **1,686,411** | **1,042,817** | 449,731 | 262,525 | 109,076 | 123,656 |
| Production cost | **3,068,409** | **489,308** | 1,165,652 | 299,656 | 637,548 | 417,554 |
| Operating Netback | **$ 5,448,108** | **$ 2,130,522** | $ 1,702,664 | $ 723,759 | $ 224,588 | $ 502,295 |

### Production Revenue and Pricing

Net production revenues increased as a result of enhanced volumes and higher commodity prices. Production volumes increased by 386 BOE per day to an average of 929 BOE per day in 2000, compared with 543 BOE per day in 1999. The average price received per BOE in 2000 increased to $40.80, representing an increase of 75% over 1999. Energy North's revenues (net of ARTC and other income) reached $11.26 million in 2000, a 211% increase over net revenue in 1999.

While crude oil continues to be the most significant portion (80%) of Energy North's production base, natural gas volumes increased slightly in 2000 to 1.67 million cubic feet per day from 1.45 million cubic feet per day in 1999. The strategic advantage of focusing more on crude oil than on natural gas is the shorter lead time required between drilling and product sales. However, Energy North eventually intends to achieve a 40% to 60% weighting between natural gas and oil, because natural gas prices jumped by 147% in 2000 while oil prices increased by 60%.

The company markets all of its crude oil through the Hardisty Light Sour system. In response to the widening of oil differentials, Energy North initiated a condensate blending operation at its Sounding Lake facility in December 2000. Under this program we blend 300 Bbls per day of Sibbald heavy crude oil with condensate to bring the oil up to Hardisty Light specifications. This operation increases oil netbacks to the company, which increases revenues. The effects of this program will be reflected in fiscal 2001 results. The company sells 100% of its natural gas production into the Alberta Spot market. There are no hedges in place.

Production expenses in 2000 increased 40% to $10.47 per BOE from $7.39 per BOE in 1999. Energy North continues to look for opportunities to reduce production costs.

**Royalties**

Royalties (net of ARTC) increased 123% in 2000 from $3.59 per BOE to $8.03 per BOE. As a percentage of revenue, royalties increased from 15% in 1999 to 19% in 2000. This reflects the higher prices for gas (i.e., the royalty rate increases as prices increase), Energy North's improved oil production (i.e., the royalty rate increases as allowable production volumes increase) and the fact that the production from Sounding Lake and Clarks Lake does not earn any ARTC. ARTC is related to price and as prices rise the ARTC rate drops.

**General and Administrative Expenses**

In 2000, general and administrative costs increased 3% to an average $3.31 per BOE, compared with $3.21 per BOE in 1999. This increase is due to a general increase in activity including the addition of staff and office space.

**Interest**

Interest expense climbed to $448,313 in 2000 from $270,448 in 1999. This escalation is primarily the result of increased debt to finance the purchase of the Sounding Lake and Clarks Lake properties.

**Long-term Debt**

During 2000, the company added $2.8 million to its available revolving line of credit. Energy North increased this facility primarily to finance the purchase of the Sounding Lake and Clarks Lake properties. Through this increased borrowing capacity, 2000 cash flow and a 1999 year end public offering of flow-through shares, Energy North was able to fund approximately $10 million worth of various capital expenditures and reduce its working capital deficiency by approximately $226,000. In addition, as at December 31, 2000, there was approximately $2.5 million of additional borrowing capacity available within existing lines of credit. It is our intention to keep Energy North's debt level to less than 1.0 times future years' cash flow. For the year 2001 and onward, Energy North will manage its debt level and adjust its capital spending program in response to cash flow changes, resulting from production volumes changes and price changes.

**Working Capital Deficiency**

As at December 31, 2000, the company reduced its working capital deficiency by 29% from $781,245 to $555,479. The ratio of current assets to current liabilities at the end of fiscal 2000 is 1 to 1.29. This ratio represents an improvement over 1999's year end ratio of 1 to 1.47. As mentioned previously, although there was a working capital deficiency of $555,479 at year end, there was also $2.5 million of undrawn borrowing capacity.

**Income Taxes and Tax Pools**

Energy North's activity in 2000 generated substantial tax pools, which will help to offset future income tax obligations. A total of $11.3 million in tax pools was available at the end of 2000, up from $8.2 million at the end of 1999.

### Type of Pools

| | 2000 | 1999 |
|---|---|---|
| Canadian Exploration Expense | **$ 991,000** | $ 1,885,000 |
| Canadian Development Expense | **940,000** | 1,061,000 |
| Canadian Oil & Gas Property Expense | **3,146,000** | 942,000 |
| Loss Carry Forwards | **615,000** | – |
| Class 41 | **4,489,000** | 3,600,000 |
| Other | **1,119,000** | 712,000 |
| Total | **$ 11,300,000** | $ 8,200,000 |

Careful monitoring of the interrelationship between significantly increased cash flows and the ability to utilize available income tax deductions led management to believe that Energy North could be faced with paying current income taxes in respect of 2000. Accordingly, in the fourth quarter of 2000, a part of the company's capital spending program was geared to ensure there were sufficient deductions to offset any need to pay current income taxes. The result of this activity led Energy North to spend money in the fourth quarter on projects that could be further developed over the next one to two years.

### Depletion and Depreciation

The company's depletion and depreciation expenses for 2000, under the full cost accounting method, were $3,014,475 compared with $1,312,050 for 1999. The 2000 ceiling test showed a very comfortable margin (approximately $24 million) between the value of Energy North's reserves and the carrying cost of property, plant and equipment on Energy North's balance sheet.

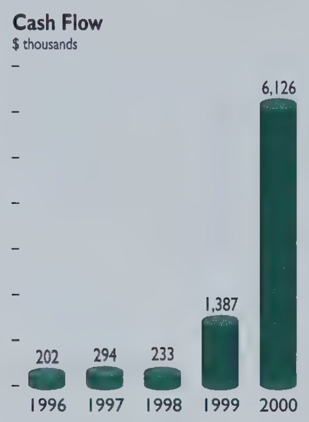
## SOURCE AND USE OF FUNDS

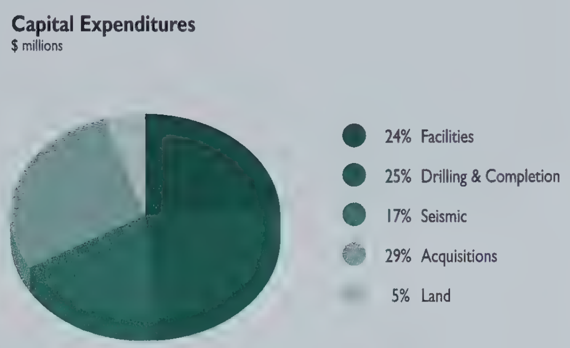
### Capital Expenditures and Sources

Energy North's capital spending program was $10.03 million in 2000, a dramatic increase over the $2.02 million spent in fiscal 1999. The company was able to fund this increase through cash from operations ($6.1million), an increase in Energy North's bank line of credit ($2.8 million) and an issue of flow-through shares in late 1999 ($1.1 million). A large part of the 2000 capital spending program focused on acquisitions and production enhancements of existing reserves. This approach was successful, resulting in significant additions to production and reserves.

In 1997, Energy North established a line of credit to facilitate flexible decision making. In 2000, the company renegotiated this credit line to $6.2 million. In the fourth quarter of 2000, Energy North issued flow-through shares, which raised an additional $3.1 million.

For 2001, Energy North's capital spending program will keep pace with cash flow and available credit lines, which we expect to be at least $12 million. Higher commodity prices and/or production increases could generate additional funds for further capital expenditures. With our intense prospect generation in 2000, Energy North has established an inventory of excellent projects where the company intends to invest additional capital.




**Capital Spending**

| | | 2000 | | 1999 |
|---|---|---|---|---|
| Land | $ | **529,757** | $ | 328,950 |
| Seismic | | **1,776,675** | | 593,645 |
| Drilling & Completion | | **2,491,385** | | 568,680 |
| Production Facilities | | **2,410,032** | | 1,539,555 |
| Capital Assets | | **233,300** | | 68,388 |
| Property Acquisitions | | **2,962,442** | | 125,949 |
| Property Dispositions | | **(372,068)** | | (1,200,484) |
| Total | $ | **10,031,523** | $ | 2,024,683 |

**Capital Sources**

| | | 2000 | | 1999 |
|---|---|---|---|---|
| Cash Flow | $ | **6,126,328** | $ | 1,387,746 |
| Working Capital | | **(239,436)** | | (888,350) |
| Equity | | **2,759,274** | | 910,015 |
| Debt | | **1,385,357** | | 615,272 |
| Total | $ | **10,031,523** | $ | 2,024,683 |

## SHARE INFORMATION

Energy North's shares commenced trading on the Alberta Stock Exchange on April 21, 1994, and have traded on that exchange and subsequently the Canadian Venture Exchange for the last six years. On January 17, 2001 Energy North began trading on the Toronto Stock Exchange under the symbol "ENI." At December 31, 2000, there were 38.35 million shares outstanding. During fiscal 2000, Energy North issued 5,849,057 shares, pursuant to a private placement of flow through shares, and 85,950 shares, pursuant to an Agent's Option. The company also repurchased 582,000 shares (cancelled and returned to treasury) in 2000, pursuant to a normal course issuer bid.

### Business Prospects for 2001

In the current environment we will look for value in both oil and natural gas projects, because industry expects both of these commodities to continue to show strong prices through 2001. Energy North will augment the drilling of both exploration and development wells with production optimization activities on existing properties. With our increased ability to manage growth, we will dedicate considerable effort towards generating acquisition opportunities and leveraging our strong balance sheet.

Oil and natural gas prices have remained at a consistent and sustainable level and profit margins have become stable. Despite these fundamentals and the resultant positive economics, equity markets, which appear to be distracted by opportunities in other sectors, are not recognizing the junior resource sector. Recent market drops in the high-tech sector, combined with a growing belief in the sustainability of commodity prices may provide better access to capital for our sector as the year progresses.

Strong cash flow streams from increasing production sales will allow Energy North to finance the bulk of our capital program internally. Acquisition activity will be financed through debt leverage and equity financing as conditions permit. Having had little access to capital, we have not seen nor do we expect to see, a rise in domestic or global productivity. This, coupled with the inexorable natural decline in production, will continue to support strong commodity pricing. As demonstrated last year, as demand for heavier gravity oil grows with the spring and summer paving season and the demand for gasoline reaches its annual summer high, we expect the U.S. dollar, oil differential to narrow and pricing for our heavy quality oil to improve. At higher prices we eventually expect to see a demand decrease, however total global requirement growth will offset this decrease. OPEC appears to have a firm understanding of mistakes made in the supply side and we do not have any reason to expect oil pricing to drop below the $25US per barrel range. Natural gas prices will eventually diminish as Northern Canadian and East Coast offshore natural gas comes into the domestic market; however these projects require long lead time and incremental supply is not expected to appear until 2005. We are therefore bullish on our sector and will continue to reinvest cash flow into a balanced oil and gas exploration program.

Even with our bullish position we will time our capital expenditures to match cash flow and available credit and therefore expect to be active throughout the year with a prudently managed growth program.

**Business Risks**

Exploration, development, production, acquisition and marketing of crude oil and natural gas are subject to a number of business risks. Commodity pricing fluctuations affect the ability to be profitable, the ability to generate capital for reinvestment, the comfort financial institutions have in lending money to production companies and the interest level of the market, which in turn influences a company's value and its ability to raise capital. It is extremely important for companies to maintain a sound financial condition so they can maintain activity levels and withstand commodity price pressure.

Energy North is adhering to its strategies, which are aimed at maintaining a sound financial condition in order to withstand low points in the cycle and be positioned to reap the benefit of efficient growth as commodity prices permit.

The growing supply of heavy crude oil volumes in Alberta and the sensitivity of the market evidenced by widening price differentials to the lower gravity crude production poses a risk to those producers with a large component of heavy oil. The supply of condensates, which are used as diluents for the transportation and handling of heavy crude's, will become critically important. It is our belief these light hydrocarbons will become increasingly valuable. Energy North has initiatives in place to replace or upgrade our approximately 20% heavy oil component with light oil and to concentrate a portion of the 2001 exploration program on the discovery and production of natural gas with a high liquids content.

Dry exploration and development wells are risks that all companies face. Mitigating the risk of not encountering economic quantities of oil or gas reserves is achieved through the prudent application of available technology and by building on experience with specific geographic areas and geologic ages. Energy North is a strong proponent of making use of available technology before making major capital investments and is also focusing its activities in areas where experience is additive so that risks can be reduced and the results improved.

Production infrastructure failures and natural gas transportation curtailments are the risks faced in getting a product to market. Energy North invests in its own equipment, where working interests warrant, and works with excellent partners and marketers to manage these risks.

Changing government fiscal policy and regulations all pose a threat. By remaining within Alberta, Energy North is in the province that is most affected by the economic well-being of the oil and gas production sector. The government policies show the importance of this relationship. Alberta continues to provide a favourable operating environment and the best fiscal regime in Canada.

**Net Asset Value**

| | | 10% NPV | | 15% NPV |
|---|---|---|---|---|
| Reserves (P plus 50% P) | $ | 22,626,000 | $ | 20,560,000 |
| Undeveloped Land | | 3,688,000 | | 3,688,000 |
| Working Capital and Debt | | (4,900,000) | | (4,900,000) |
| Seismic/Prospect Inventory | | 4,000,000 | | 4,000,000 |
| Exercise of Stock Options | | 1,503,000 | | 1,503,000 |
| Furniture & Fixtures | | 227,000 | | 227,000 |
| Leaseholds | | 108,000 | | 108,000 |
| Total | $ | 27,251,000 | $ | 25,186,000 |
| | | | | |
| Basic Common Shares | | 38,355,684 | | 38,355,684 |
| Fully Diluted Common Shares | | 42,106,064 | | 42,106,064 |
| NAV per Share Basic | $ | 0.67 | $ | 0.62 |
| NAV per Share Fully Diluted | $ | 0.65 | $ | 0.60 |

**Share-Trading Profile**

Market dynamics and investor interest continued to be a problem for the junior oil and gas sector during 2000. This trend appears to be continuing into 2001. Energy North's trading levels did however pick up during the year, with investors trading a total of 4.4 million shares compared with 1.3 million in 1999. This represents a 238% increase. The stock traded in a range between $0.18 and $0.50. Joining the Toronto Stock Exchange will likely increase Energy North's investor base and provide support for the stock trading.

**Trading Activity for 2000**

*"Even with our current "bullish" position,*

*Energy North will prudently manage growth in 2001"*



**Tim Ruth,** *Operator – Leela*

The accompanying financial statements of Energy North Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

Management in accordance with Canadian generally accepted accounting principles has prepared the financial statements and where alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Financial statements are not precise since they include certain amounts based on estimates and judgments and where applicable such amounts have been determined on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the financial statements.

The company maintains systems of internal accounting and administrative controls, consistent with reasonable cost, which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, which includes two non-management directors.

Buchanan Barry LLP, the external auditors, has audited the financial statements in accordance with generally accepted auditing standards on behalf of the shareholders. Buchanan Barry LLP has full and free access to the Audit Committee.

Richard N. Edgar
*President and Chief Executive Officer*

William E. Patterson, C.A.
*Vice President, Finance*
*and Chief Financial Officer*

To the Shareholders of
Energy North Inc.

We have audited the balance sheets of Energy North Inc. as at December 31, 2000 and December 31, 1999 and the statements of income and deficit and statements of cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and the changes in cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Buchanan Barry LLP

*Calgary, Alberta*
*February 9, 2001*

Buchanan Barry LLP
*Chartered Accountants*

| | | 2000 | | 1999 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Accounts receivable | $ | **1,778,384** | $ | 1,553,551 |
| Prepaid expenses | | **110,758** | | 102,955 |
| | | **1,889,142** | | 1,656,506 |
| **Property, plant and equipment** (note 2) | | **15,419,811** | | 8,341,557 |
| | $ | **17,308,953** | $ | 9,998,063 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | **2,254,758** | $ | 2,261,556 |
| Current portion of long-term debt | | **189,863** | | 176,195 |
| | | **2,444,621** | | 2,437,751 |
| **Future income tax** (note 6) | | **1,876,452** | | 115,881 |
| **Long-term debt** (note 3) | | **4,350,435** | | 2,978,746 |
| **Provision for future site restoration** | | **270,864** | | 209,660 |
| | | **8,942,372** | | 5,742,038 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **Share capital** (note 4) | | **9,719,018** | | 7,249,307 |
| **Deficit** | | **(1,352,437)** | | (2,993,282) |
| | | **8,366,581** | | 4,256,025 |
| | $ | **17,308,953** | $ | 9,998,063 |

Approved by the Board,

Morton H. Wyne

R.N Edgar
*President and Chief Executive Officer*

Morton H. Wyne
*Director*

| | | 2000 | | 1999 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Petroleum and natural gas | $ | **13,865,575** | $ | 3,516,936 |
| Royalties (net of ARTC) | | **(2,729,228)** | | (564,141) |
| Other (note 5) | | **120,086** | | 671,447 |
| | | **11,256,433** | | 3,624,242 |
| **Operating expenses** | | | | |
| Depreciation and depletion | | **3,014,475** | | 1,312,050 |
| Production expenses | | **3,557,717** | | 1,330,178 |
| General and administrative | | **1,124,075** | | 635,870 |
| Interest | | **448,313** | | 270,448 |
| | | **8,144,580** | | 3,548,546 |
| **Earnings before income taxes** | | **3,111,853** | | 75,696 |
| **Future income tax expense** | | **1,358,043** | | 23,459 |
| **Net earnings** | | **1,753,810** | | 52,237 |
| **Deficit, beginning of year** | | **(2,993,282)** | | (3,045,519) |
| **Premium on redemption of common shares** | | **(112,965)** | | – |
| **Deficit at beginning of year** | | **(3,106,247)** | | (3,045,519) |
| **Deficit end of year** | $ | **(1,352,437)** | $ | (2,993,282) |
| **Earnings per share** (note 4) | $ | **0.05** | $ | 0.00 |
| **Earnings per share fully diluted** (note 4) | $ | **0.04** | $ | 0.00 |

| | | 2000 | | 1999 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net earnings | $ | **1,753,810** | $ | 52,237 |
| Adjustments to operations not involving cash | | | | |
| Future income tax expense | | **1,358,043** | | 23,459 |
| Depreciation and depletion | | **3,014,475** | | 1,312,050 |
| | | **6,126,328** | | 1,387,746 |
| Change in non-cash working capital items | | | | |
| Accounts receivable | | **(224,833)** | | (1,119,438) |
| Prepaid expenses | | **(7,803)** | | (18,361) |
| Accounts payable and accrued liabilities | | **(6,800)** | | 249,449 |
| | | **(239,436)** | | (888,350) |
| | | **5,886,892** | | 499,396 |
| **Investing activities** | | | | |
| Acquisition of production equipment | | **(3,058,532)** | | (1,593,350) |
| Acquisition of resource properties | | **(7,111,759)** | | (1,563,429) |
| Acquisition of capital assets | | **(233,300)** | | (68,388) |
| Proceeds on disposal of resource properties | | **372,068** | | 1,200,484 |
| | | **(10,031,523)** | | (2,024,683) |
| **Financing activities** | | | | |
| Issue of flow-through shares | | **3,100,000** | | 1,171,640 |
| Proceeds of long-term debt | | **1,385,357** | | 615,272 |
| Share issue costs | | **(132,380)** | | (261,625) |
| Exercise of stock options | | **27,504** | | – |
| Redemption of common shares | | **(235,850)** | | – |
| | | **4,144,631** | | 1,525,287 |
| **Net change in cash** | | – | | – |
| **Cash, beginning of year** | | – | | – |
| **Cash, end of year** | $ | – | $ | – |

## 1 Accounting Policies

### Property, Plant and Equipment

#### Petroleum and Natural Gas Properties and Production Equipment

The Company follows the full cost method of accounting for oil and gas activities whereby all costs associated with the acquisition of, the exploration for, and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, equipment costs, and general and administrative costs directly related to the exploration and development activities. Other general and administrative costs and interest charges are expensed. The carrying value is limited by a ceiling test calculation to a recoverable amount as determined by estimating the current value of future net revenue from proven properties based on current prices, costs and the value of unproven properties at the lower of cost or net realizable value.

Amortization of these costs is calculated on the unit of production method based on estimated proven reserves as determined by independent engineers. For purposes of depreciation and depletion calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content. The costs of significant unevaluated properties are excluded from the depletion and depreciation base.

Proceeds from disposals of properties are normally applied as a reduction of the costs of the remaining assets unless the disposal represents a significant portion of the Company's total reserves, in which case a gain or loss on disposal is recorded.

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

#### Other Fixed Assets

These assets are recorded at cost. Depreciation is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

| | |
|---|---|
| Furniture and fixtures | - 20% declining balance |
| Vehicles | - 30% declining balance |
| Leasehold improvements | - 5 years straight-line |
| Computer equipment | - 30% declining balance |
| Computer software | - 50% straight-line |

Acquisitions during the period are depreciated at one-half the normal rate.

#### Future Site Restoration and Abandonment

The Company estimates its future site restoration and abandonment costs for its petroleum and natural gas wells. The costs are management's best estimate of the future site restoration and abandonment costs based on current legislation and industry practice. Total estimated costs are being provided for on a unit of production basis. The annual provision is included in depreciation and depletion, and actual site restoration and abandonment costs are charged to the provision account as incurred.

#### Flow-through Shares

The resource expenditure deductions related to exploration and development activities, funded by flow-through share arrangements, are renounced to investors in accordance with current tax legislation. Share capital is reduced by the estimated future income tax cost of the renounced deductions as the expenditures are incurred.

### Income Taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets.

### Measurement Uncertainty

The amounts recorded for depreciation of property, plant and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of any changes in such estimates on the financial statements of future periods could be material.

## 2 Property, Plant and Equipment

| December 31 | | 2000 | | 1999 |
|---|---|---|---|---|
| | **Cost** | **Accumulated depreciation** | **Net book value** | Net book value |
| Furniture, fixtures and equipment | **$ 515,017** | **$ 288,147** | **$ 226,870** | $ 163,098 |
| Leasehold improvements | **159,665** | **52,112** | **107,553** | 37,640 |
| Petroleum and natural gas properties | **14,924,746** | **4,339,593** | **10,585,153** | 5,433,277 |
| Production equipment | **7,144,885** | **2,644,650** | **4,500,235** | 2,707,542 |
| | **$ 22,744,313** | **$ 7,324,502** | **$ 15,419,811** | $ 8,341,557 |

As at December 31, 2000, costs of $2,728,000 (1999 - $1,276,911) for unproven properties have been excluded from the depletion calculation. The provision for future site restoration costs is recorded in the statement of earnings and deficit as a component of depreciation and depletion and on the balance sheet as a long-term liability. At December 31, 2000, the remaining estimated future site restoration costs to be accrued over the life of the proven reserves are $1,230,137 (1999 - 414,607).

Under the full cost method of accounting a ceiling test is required. The ceiling test calculation at December 31, 2000, used the Company's year end selling price of $29.76 per barrel for oil and $13.96 per Mcf for gas. A ceiling test write-down was not required for 2000 (1999 - nil).

## 3 Long-Term Debt

The Corporation has a $6,.2 million revolving production loan facility with the Alberta Treasury Branches. Interest is calculated on the daily outstanding principal amount at prime plus 0.75% per annum, with interest payable monthly. The facility is secured by a $15 million demand debenture providing a floating charge on the Corporation's assets, a general security agreement, and a fixed charge against certain properties located at Knopcik, Lloydminster, Sounding Lake and Clarks Lake. While the revolving production loan facility is of a demand nature, the bank has stated it is not their present intention to demand repayment nor do they have information that would lead them to anticipate that the loan would be demanded before January 1, 2002. Accordingly, the loan is classified as long-term. Cash interest paid in the year ended December 31, 2000, was $417,064 (1999 – 270,448).

The Corporation has a $746,807 variable rate term loan facility with Alberta Treasury Branches. Interest is calculated at prime plus 1.5%. The loan is payable over a 60-month term, with a blended payments of $20,330 payable on the last day of each month until June 30, 2004. This facility is secured by the Sibbald Battery.

Estimated minimum principal repayments are as follows:

| | | |
|---|---|---|
| 2001 | $ | 189,863 |
| 2002 | | 206,132 |
| 2003 | | 223,796 |
| 2004 | | 127,016 |
| | $ | 746,807 |

## 4 Share Capital

**Authorized:**

Unlimited number of common shares

Preferred non-voting shares issuable in series with designation, rights, privileges, restrictions and conditions to be fixed by the Board of Directors before issue of preferred shares.

**Issued and outstanding**

**Common Shares**

| | Number of Common Shares | | Amount |
|---|---|---|---|
| Balance December 31, 1998 | 29,320,469 | $ | 6,303,041 |
| Issue of flow through shares | 3,682,208 | | 1,171,640 |
| Tax benefits on share issue costs | – | | 76,185 |
| Tax benefits renounced | – | | (39,934) |
| Share issue costs | – | | (261,625) |
| December 31, 1999 | 33,002,677 | | 7,249,307 |
| Issue of flow through shares | 5,849,057 | | 3,100,000 |
| Exercise of stock options | 85,950 | | 27,504 |
| Redemption of common shares | (582,000) | | (122,885) |
| Tax benefits renounced | – | | (461,596) |
| Tax benefits on share issue costs | – | | 59,068 |
| Share issue costs | – | | (132,380) |
| December 31, 2000 | 38,355,684 | $ | 9,719,018 |

**Shares Issued**

On July 13, 1999, the Company issued 333,333 flow-through common shares at a price of $0.30. As at December 31, 1999, the Company has renounced all of these resource expenditures.

The Company issued 3,348,875 flow through common shares at a price of $0.32, pursuant to flow-through share agreements dated December 10, 1999 and December 21, 1999. As at December 31, 2000, the Company has renounced all of these resource expenditures.

The Company issued 5,849,057 flow-through common shares at a price of $0.53. Pursuant to a flow-through share agreements, dated December 15, 2000, the Company committed to renounce resource expenditures of $3,100,000.

### Stock Options

During 2000, options to purchase a total of 485,000 common shares were granted pursuant to an incentive stock option plan at exercise prices ranging from $0.30 to $0.43 per share and expiring on various dates from August 2005 to November 13, 2005.

Under this incentive stock option plan, the Company has granted a total of 3,750,380 stock options to directors, officers and consultants of the Company. The stock options are exercisable at prices ranging from $0.20 to $0.65 and will expire at various times until November 13, 2005. The Company has reserved 3,750,380 common shares under the stock option plan.

In 1999, the Company granted to the Agent of a flow-through share offering, a non-transferable option to purchase up to 133,955 common shares, at a price of $0.32 per share expiring December 10, 2000 and December 21, 2000. Options for 85,950 common shares were exercised and 48,005 expired.

### Normal Course Issuer Bid

On May 15, 2000 Energy North announced that it filed a notice of intent with the Canadian Venture Exchange to make a normal course issuer bid. The notice provided that Energy North may purchase up to 5% of its outstanding common shares (1,650,000 in total) over a 12-month period commencing on May 23, 2000 and ending on May 22, 2001. Pursuant to the normal course issuer bid, the Company purchased 582,000 (1999 – nil) of its issued and outstanding common shares with an average carrying value of $122,885. The total cost of acquiring these shares of $235,850 exceeded the average carrying value by $112,965, which was charged to retained earnings.

### Common Share Amounts

The calculation of net earnings per common share is based on the weighted average number of common shares outstanding during the year ended December 31, 2000 of 33,153,420 (1999 – 29,691,667).

The calculation of net earnings per fully diluted common share is based on the fully diluted weighted average number of common shares outstanding during the year ended December 31, 2000 of 36,666,660 (1999 – 32,465,605).

## 5 Other

Other income in the 1999 year included an amount of $651,770 for business interruption insurance. This pertains to the Sibbald Battery. The business interruption claim was for the period July 26, 1999 to December 4, 1999 net of a 10-day deductible period.

## 6 Future Income Taxes

Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefits of losses available to be carried forward to future years for tax purposes that are likely to be realized.

The Company's future income tax liability for the years ended December 31 consists of the following:

| Future income tax liabilities | **2000** | 1999 |
|---|---|---|
| Property, plant and equipment | **$ 1,875,952** | $ 163,000 |
| Share issue costs | **(166,455)** | (143,662) |
| Other | **(3,524)** | (564) |
| Resource allowance adjustments | **170,480** | 97,107 |
| Future tax liability | **$ 1,876,453** | $ 115,881 |

The provision for income taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial income tax rate of approximately 44.6% to the loss before income taxes. Provincial tax in 1999 has been offset by Attributed Canadian Royalty Income (ACRI) carry forward.

| | | 2000 | | 1999 |
|---|---|---|---|---|
| Income before income taxes | $ | **3,111,853** | $ | 75,696 |
| Statutory income tax rate | | **44.62%** | | 29.12% |
| Computed expected tax | $ | **1,388,509** | $ | 22,043 |
| Increase (decrease) resulting from: | | | | |
| Non-deductible Crown charges | | **828,810** | | 158,690 |
| Alberta Royalty Tax Credit | | **(103,541)** | | (77,272) |
| Federal resource allowance | | **(921,799)** | | (82,621) |
| Depletion with no tax base | | **261,585** | | 110,064 |
| Other | | **(95,521)** | | (107,445) |
| Future income tax expense | $ | **1,358,043** | $ | 23,459 |

The Company has approximately $11,300,000 of income tax pools and tax deductions available to offset future taxable earnings.

## 7 Related Party Transactions

During the year, certain directors and officers were paid $629,683 (1999 -$410,594) for consulting fees. During the year, legal fees of $29,036 (1999 - $106,270) were paid to a legal firm in which a director is an active partner.

## 8 Lease Commitment

On December 1, 2000, the Company entered into a lease agreement for office premises ending on November 30, 2005. The minimum lease payments required under the lease are as follows:

| | | |
|---|---|---|
| 2001 | $ | 105,719 |
| 2002 | | 105,719 |
| 2003 | | 105,719 |
| 2004 | | 105,719 |
| 2005 | | 96,909 |
| | $ | 519,785 |

## 9 Financial Instruments

The Company's financial instruments that are included in the balance sheet are comprised of accounts receivable, accounts payable, and long-term debt. The fair value of financial instruments that are included in the balance sheet, including long-term debt, approximate their carrying amount due to the short-term maturity of those instruments and the floating prime rate applied to the long-term debt. Virtually all of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

As at December 31, 2000, the increase or decrease in net earnings for each 1% change in the interest rate on the floating rate debt amounts to $21,737.

| | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **FINANCIAL** | | | | | |
| Petroleum and Natural Gas Revenue (net) | **$ 11,256,433** | $ 3,624,242 | $ 1,860,685 | $ 1,329,295 | $ 746,947 |
| Cash Flow from Operations | **6,126,328** | 1,387,746 | 233,463 | 294,295 | 202,211 |
| Cash Flow per Share | **0.18** | 0.05 | 0.01 | 0.01 | 0.01 |
| Net Earnings | **1,753,810** | 52,237 | (2,706,515) | (189,651) | (15,804) |
| Net Earnings per Share | **0.05** | 0.00 | (0.10) | (0.01) | (0.00) |
| Capital Expenditures | **10,031,523** | 2,024,683 | 3,588,187 | 4,566,642 | 2,271,264 |
| Total Assets | **17,308,953** | 9,998,063 | 8,068,965 | 9,863,311 | 4,570,673 |
| Total Debt | **4,540,298** | 3,154,941 | 2,539,669 | – | – |
| Shareholder's Equity | **8,366,581** | 4,256,025 | 3,386,195 | 7,044,831 | 4,098,796 |
| **Common Shares Outstanding** | | | | | |
| End of Period | **38,355,684** | 33,002,677 | 29,320,469 | 23,520,469 | 23,520,469 |
| Weighted Average | **33,153,420** | 29,691,667 | 27,954,088 | 23,520,469 | 15,297,796 |
| Fully Diluted | **42,106,064** | 36,402,002 | 31,570,469 | 35,737,136 | 28,587,136 |
| **OPERATIONS** | | | | | |
| **Daily Average Production** | | | | | |
| Crude Oil and NGLs (Bbls per day) | **761** | 398 | 243 | 153 | 69 |
| Natural Gas (Mcf per day) | **1,673** | 1,453 | 1,388 | 743 | 411 |
| Total BOE per day | **929** | 543 | 382 | 227 | 110 |
| **Finding & Development Cost** | **$ 7.98** | $ 5.45 | $ 8.04 | $ 5.06 | $ 4.05 |
| **Funds per Boe** | **$ 18.02** | $ 7.66 | $ 1.25 | $ 3.32 | $ 4.99 |
| **DD&A per Boe** | **$ 8.87** | $ 6.62 | $ 20.13 | $ 5.82 | $ 5.42 |
| **Average Selling Price** | | | | | |
| Crude Oil and NGLs ($ per Bbl) | **36.61** | 22.84 | 10.94 | 17.02 | 23.93 |
| Natural Gas ($ per Mcf) | **5.97** | 2.42 | 2.06 | 1.87 | 1.43 |
| **Proven Plus 50% Probable Reserves** | | | | | |
| Crude Oil and NGLs (Bbls) | **1,699,000** | 1,185,400 | 885,800 | 1,194,400 | 375,300 |
| Natural Gas (MMcf) | **3,238.0** | 2,091.6 | 2,957.5 | 2,422.1 | 2,414.1 |
| Total BOE | **2,022,800** | 1,394,560 | 1,181,550 | 1,436,610 | 616,710 |
| **Present Value of Reserves** | | | | | |
| Discounted before Taxes at 15% | **$ 20,560,000** | $ 9,205,600 | $ 6,553,500 | $ 6,419,300 | $ 3,852,700 |
| Discounted before Taxes at 10% | **$ 22,626,000** | $ 10,461,100 | $ 7,585,400 | $ 7,563,900 | $ 4,499,800 |
| **Reserve Life Index** | **4.61** | 5.21 | 5.65 | 5.23 | 5.80 |

**Richard N. Edgar**, *B.Sc., P.Geol., President and Chief Executive Officer*
Mr. Edgar graduated from the University of Alberta in Edmonton in 1972 and spent his career working in Western Canada and internationally for major exploration companies. He has also held key positions with junior and intermediate companies. Mr. Edgar is a member of APEGGA and the Canadian Society of Professional Geologists.

**William E. Patterson**, *B.A., C.A., Vice President, Finance and Chief Financial Officer*
A graduate in economics from the University of Calgary in 1968, Mr. Patterson obtained his Chartered Accountancy designation in 1973. His career has given him experience with a major bank, as a taxation manager with a Canadian multinational corporation and, prior to joining Energy North, as a taxation partner with PricewaterhouseCoopers, Chartered Accountants.

**Bruce G. Edgar**, *B.Sc., P.Geol. , Vice President, Exploration*
Mr. Edgar is a graduate of University of Alberta in Edmonton and since 1977, has worked at a number of large and intermediate companies, where he has gathered extensive experience, primarily in Western Canada, but also in South and Central Americas.

**Peter J. Pelensky**, *P.Eng, Vice President, Engineering*
Mr. Pelensky graduated from the University of Wyoming in 1981 with a degree in petroleum engineering. Since that time, he has held various management and senior engineering positions with medium and intermediate oil and gas companies operating in Canada and internationally. He is a member of APEGGA and SPE.

**R. Graeme Dales**, *B.A., M.Sc., Director*
Mr. Dales has held a number of geologist, exploration manager and vice president of exploration roles for small, entrepreneurial oil and gas companies throughout his 21-year career.

**Francis. E. Lefaivre**, *Director*
For 26 years until his retirement in 1977, Mr. Lefaivre was with Shell Canada Limited, and from 1963 to 1977 was responsible for gas liquids marketing, trading and transportation. He has been president of Lefaivre Resources Limited, a private oil and gas company, since 1977.

**R. Gregory Powers**, *Q.C., Director*
Mr. Greg Powers, Counsel, Thackray Burgess, has specialized in corporate finance, securities and acquisitions, and has served the oil and gas industry exclusively since 1970.

**Morton H. Wyne**, *Director*
Mr. Wyne is chief executive officer of Financial Management Inc., a private insurance brokerage corporation.

ENERGY NORTH INC.



**What's Different About Energy North Inc.**

- Operates 80% of its production
- Builds shareholder value through exploration and acquisitions
- Holds a two-year inventory of exploration and development prospects for both oil and natural gas
- Generates full cycle exploration projects – from seismic to production
- Pursues prospect development using leading-edge technology
- Adheres to a proven strategy to increase volumes and revenues annually
- Operates from a solid asset base reinforced by strong financials
- Focuses on three core areas with rewarding opportunities

**Key Statistics:**

- Five years old
- 23 employees and consultants (15 head office, 8 field)
- Toronto Stock Exchange; symbol "ENI"
- 38,355,684 shares outstanding

| | Revenue | Crude Oil (Bbls per day) | Natural Gas (Mcf per day) | Total BOE P plus 50% P | Cash Flow | Cash Flow/share |
|---|---|---|---|---|---|---|
| 1998 | $ 1,860,685 | 243 | 1,388 | 1,181,550 | $ 233,463 | $ 0.01 |
| 1999 | $ 3,516,936 | 398 | 1,453 | 1,394,560 | $ 1,387,746 | $ 0.05 |
| **2000** | **$ 13,865,575** | **761** | **1,673** | **2,022,800** | **$ 6,126,328** | **$ 0.18** |

| | Oil Revenues | Gas Revenues | Royalties | Prod. Costs | Netback |
|---|---|---|---|---|---|
| 1998 | $ 971,212 | $ 1,043,505 | $ 232,732 | $ 1,055,102 | $ 726,883 |
| 1999 | $ 3,318,047 | $ 1,285,940 | $ 712,256 | $ 1,465,308 | $ 2,426,423 |
| **2000** | **$ 10,202,928** | **$ 3,662,647** | **$ 2,729,228** | **$ 3,557,717** | **$ 7,578,630** |

This fact sheet has been prepared by Energy North Inc.
to address the information needs of the investment community.

For additional information please contact:
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Bill Patterson, *Vice President, Finance and CFO*

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website: www.energynorthinc.com

## Directors

Richard N. Edgar ●
*President, CEO and Director*

R. Graeme Dales ▲ ■
*Secretary and Director*

Francis E. Lefaivre ▲ ■
*Director*

R. Greg Powers, Q.C. ● ■
*Director*

Morton H. Wyne ● ▲ ■
*Director*

## Officers

Richard N. Edgar
*President and CEO*

William E. Patterson, C.A.
*Vice President, Finance and CFO*

Bruce G. Edgar
*Vice President, Exploration*

Peter J. Pelensky, P. Eng
*Vice President, Engineering*

## Legal Counsel

Thackray Burgess
1900, 736 - 6 Avenue SW
Calgary, Alberta T2P 3T7

▲ *Corporate Governance*
■ *Compensation Committee*
● *Member of Audit Committee*

## Transfer Agent & Registrar

Valiant Corporate Trust Company
510, 550 - 6 Avenue SW
Calgary, Alberta T2P 0S2

## Auditors

Buchanan Barry LLP
800, 840 - 6 Avenue SW
Calgary, Alberta T2P 3E5

## Bank

Alberta Treasury Branches

## Corporate Office

905, 500 - 4 Avenue SW
Calgary, Alberta T2P 2V6

| | |
|---|---|
| telephone | 403-269-1053 |
| fax | 403-269-1790 |
| email | energy@energynorthinc.com |
| website | www.energynorthinc.com |

## Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol ENI

Abbreviations

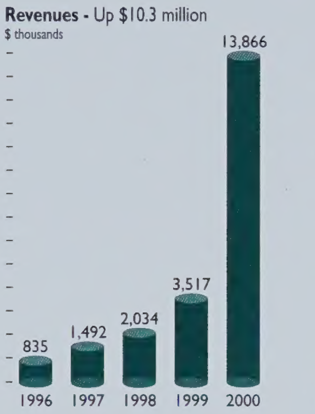
| | |
|---|---|
| ARTC | Alberta Royalty Tax Credit |
| Bbl | barrel |
| Bbls | barrels |
| BOE | barrel of oil equivalent (1 BOE = 10 Mcf) |
| MBbls | thousands of barrels |
| MBOE | thousands of barrels of oil equivalent |
| Mcf | thousand cubic feet |
| Mcf/d | thousand cubic feet per day |
| Mmbbls | millions of barrels |
| MMcf | million cubic feet |
| MMcf/d | million cubic feet per day |
| NAV | Net Asset Value |
| NGLs | natural gas liquids |
| NPV | Net Present Value |
| P plus 50% P | Proven plus 50% probable |

Concept and Development: Melnyk Cary & Associates and Laura Perry
Printed in Canada by Sundog Printing Limited

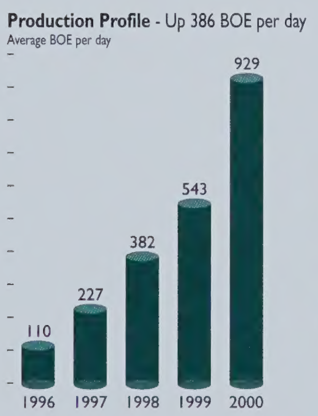
ENERGY NORTH INC.

ENI FACT SHEET

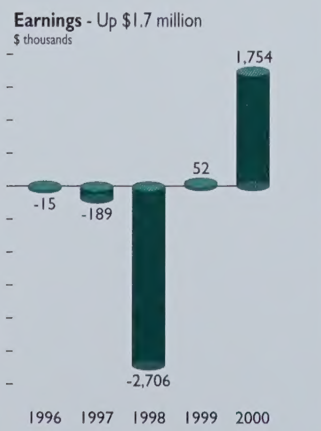
www.energynorthinc.com/results2000/




*Net revenues jumped in 2000 because of increased production and higher commodity prices.*




*Developing new properties quickly enhances production volumes.*




*Volumes and prices accounted for a significant rise in earnings.*

## Corporate Profile

Energy North Inc. explores for and develops crude oil and natural gas. Since its reorganization in August 1996, the company has maintained year over year growth in revenues, production volumes and proven and probable reserves. Energy North has a strategic and aggressive approach to full cycle exploration and development, and has built up a large, comprehensive portfolio of land prospects. Over the last five years, ENI has increased its asset base, adding to core areas in Eastern and West Central Alberta and further north in the Fairview region.

| | **2000** | 1999 | % Change |
|---|---|---|---|
| **FINANCIAL** | | | |
| Petroleum and Natural Gas Revenue | **$ 13,865,575** | $ 3,516,936 | 294 |
| Cash Flow from Operations | **6,126,328** | 1,387,746 | 341 |
| Cash Flow per Share | **0.18** | 0.05 | 260 |
| Net Earnings | **1,753,810** | 52,237 | 3,257 |
| Net Earnings per Share | **0.05** | 0.00 | 500 |
| Capital Expenditures | **10,031,523** | 2,024,683 | 395 |
| Total Debt | **4,540,298** | 3,154,941 | 44 |
| Shareholder's Equity | **8,366,581** | 4,256,025 | 97 |
| **Common Shares Outstanding** | | | |
| Weighted Average | **33,153,420** | 29,691,667 | 12 |
| **OPERATIONS** | | | |
| **Daily Average Production** | | | |
| Crude Oil and NGLs (Bbls per day) | **761** | 398 | 91 |
| Natural Gas (Mcf per day) | **1,673** | 1,453 | 15 |
| Total BOE per day 10:1 | **929** | 543 | 71 |
| Total BOE per day 6:1 | **1,040** | 640 | 63 |
| **Average Selling Price** | | | |
| Crude Oil and NGLs ($ per Bbl) | **36.61** | 22.84 | 60 |
| Natural Gas ($ per Mcf) | **5.97** | 2.42 | 147 |
| **Proven Plus 50% Probable Reserves** | | | |
| Crude Oil and NGLs (Bbls) | **1,699,000** | 1,185,400 | 43 |
| Natural Gas (MMcf) | **3,238.0** | 2,091.6 | 55 |
| Total BOE | **2,022,800** | 1,394,560 | 45 |
| **Present Value of Reserves** | | | |
| Discounted before Taxes at 10% | **$ 22,626,000** | $ 10,461,100 | 116 |

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